GENERAL FUND STRUCTURAL BALANCE

Structural Imbalance

A structural imbalance between revenues and expenditures in the general fund has been the general rule since the early 1980s, as shown in Table 1 below. During the 1980's and early 1990', the legislature utilized a number of one-time sources of money to maintain solvency in the general fund. These revenues were used to fund ongoing expenses of state government and, as a result, exacerbated the imbalance between costs and available revenues. Expenditures exceeded revenues by over $50 million in the 1985 biennium, and by over $110 million in the 1987 biennium. The 1993 legislature established rules and placed a strong emphasis on achieving a structural balance between revenues and expenditures, as did the 1995 and 1997 legislatures. Each of those legislatures approved a budget that nearly matched ongoing revenues with ongoing expenditures. However, supplemental requests, including fire suppression costs (which are not budgeted for by the legislature), are among the reasons that a minor imbalance occurred by the end of each of those biennia.

1999 Legislature

A moderate but growing state economy and state revenue flow combined with slowing school enrollment and human services caseload demands allowed the 1999 legislature the opportunity to work with a budget surplus and to address budget issues of a more discretionary nature than the tight budget sessions of earlier biennia. Revenues through fiscal 1999 have been stronger than expected, particularly from individual income tax, and along with two major sources of unanticipated new revenues totaling nearly $100 million, the legislature had more funds to work with even after funding present law increases in state agency budgets. Although the legislature approved significant increases in state spending (primarily for education and human services as well as corrections), it also elected to allow part of the anticipated funds to go to taxpayers in the form of significant tax relief. As shown in Table 1, the legislature did not achieve structural balance between revenues and expenditures, as it approved a budget where appropriations exceed anticipated revenues

Table 1
Revenue and Disbursement History
General Fund & School Equalization Accounts
In Millions

	F Y	General Fund Revenue	Disburse.	Surplus / Deficit	School Equalization Revenue	Disburse.	Surplus / Deficit	GF/SEA Revenue	GF/SEA Disburse.	Surplus / Deficit
A	84	$330.305	$357.387	($27.082)	$242.384	$261.753	($19.369)	$572.689	$619.140	($46.451)
A	85	364.522	380.359	(15.837)	281.275	271.016	10.259	645.797	651.375	(5.578)
A	86	349.541	366.815	(17.274)	252.899	282.166	(29.267)	602.440	648.981	(46.541)
A	87	346.690	391.325	(44.635)	263.052	283.428	(20.376)	609.742	674.753	(65.011)
A	88	391.152	370.853	20.299	276.216 *	281.886	(5.670)	667.368	652.739	14.629
A	89	411.729	388.270	23.459	275.589 *	279.536	(3.947)	687.318	667.806	19.512
A	90	447.962	432.323	15.639	282.389	287.393	(5.004)	730.351	719.716	10.635
A	91	420.257	457.612	(37.355)	385.031	391.500	(6.469)	805.288	849.112	(43.824)
A	92	487.036	523.072	(36.036)	393.591 *	398.059	(4.468)	880.627	921.131	(40.504)
A	93	539.955	523.553	16.402	412.903	405.067	7.836	952.858	928.620	24.238
A	94	480.021	497.921	(17.900)	411.834	406.388	5.446	891.855	904.309	(12.454)
A	95	646.149	535.461	110.688	289.199 *	409.822	(120.623)	935.348	945.283	(9.935)
A	96	963.193	984.997	(21.804)				963.193	984.997	(21.804)
A	97	986.570	997.835	(11.265)				986.570	997.835	(11.265)
A	98	1,034.382	1,020.591	13.791				1,034.382	1,020.591	13.791
F	99	1,068.111	1,043.418	24.693				1,068.111	1,043.418	24.693
F	00	1,122.997	1,102.119	20.878				1,122.997	1,102.119	20.878
F	01	1,101.590	1,154.660	(53.070)				1,101.590	1,154.660	(53.070)

* Excludes education trust & general fund transfers.

by over $32 million for the biennium, even prior to any potential supplementals. The resulting budget was balanced with $40 million of one-time revenues and accounting changes as well as a reduction in the ending fund reserve. This creates a shortfall of ongoing revenues to support the approved level of appropriations for the 2001 biennium and beyond.

Table 2
General Fund Present Law Budget
Anticipated for 2003 Biennium
Figures In Millions

			Biennium 2000-2001	Biennium 2002-2003	Dollar Change
Beginning Fund Balance			$72.0	$51.5	($20.5)
Anticipated Revenue Before Legislation			2,224.2	2,353.4	129.2
One-Time Revenue			30.0	0.0	(30.0)
Fund Balance Adjustments			9.9	0.0	(9.9)
Residual Equity Transfers			1.8	(4.0)	(5.8)
	Total Revenue Before Legislation		**$2,337.9**	**$2,400.9**	**$63.0**
Major Taxation Revisions					
HB128	Telecommunications		24.0	37.5	13.5
HB174	Electrical Generation		(1.0)	(5.6)	(4.6)
SB132	Insurance Fees		(2.6)	(5.2)	(2.6)
SB172	Telecommunications		(2.0)	(4.0)	(2.0)
SB184	Homeowner Property		(15.7)	(17.1)	(1.4)
SB200	Business Property		(14.5)	(22.1)	(7.6)
SB260	Vehicle		(16.8)	(23.4)	(6.6)
---	All Other		(1.0)	(1.0)	0.0
	Total Tax Revisions		($29.6)	($40.9)	($11.3)
	Total Revenue After Legislation		**$2,308.3**	**$2,360.0**	**$51.7**
Major Disbursements					
---	Human Services	5.76%	(463.4)	(490.1)	(26.7)
---	Corrections	10.17%	(179.9)	(198.2)	(18.3)
---	Higher Education	0.00%	(242.9)	(242.9)	0.0
---	Public School Support	-1.04%	(961.4)	(951.4)	10.0
---	All Other Government	1.49%	(220.8)	(224.1)	(3.3)
---	Local Assistance	68.82%	(72.8)	(122.9)	(50.1)
---	All Other Authority	4.16%	(93.7)	(97.6)	(3.9)
HB013	Employee Pay Proposal	NA	(21.9)	(33.7)	(11.8)
	Total Disbursement Changes		**($2,256.8)**	**($2,360.9)**	**($104.1)**
	Anticipated Balance		**$51.5**	**($0.9)**	**($52.4)**

GENERAL FUND STRUCTURAL BALANCE

2003 Biennium Projection

The purpose of this section is to examine the impacts of legislative action on the 2003 biennium with regard to structural balance of the fund, i.e., the ability of present law revenues to support present law expenditure requirements. This analysis provides a broad overview of the scope of issues the legislature may face in the 2001 session, using projections based on ?broad brush? general assumptions of expenditure and revenue patterns from the most current available information and legislatively established projections. It must be emphasized that these projections are extremely preliminary, but provide some insights into what impacts current legislation and projections could have on the 2003 biennium.

Future legislators face the ever-present difficulty of holding down budget growth when confronted with demands for increased spending in human services programs, higher corrections costs, and demands for increased funding support to public schools. Recognizing this, the imbalance in the general fund will be exacerbated in the 2003 biennium and beyond by the anticipated present law growth in both state expenditures and progressive tax relief initiatives adopted by the 1999 legislature.

Table 2 provides a projected present law budget for the 2003 biennium (column 2), and presents the difference (column 3) from the 2001 biennium budget. With anticipated annual growth in state revenues of approximately 2.9 percent, the 2001 legislature would have about $129 million in revenue growth, exclusive of the impacts of tax reform legislation, to fund anticipated growth in state program present law costs. However, available revenues in the 2003 biennium are reduced by a one-time $20 million draw-down of the fund balance, the non-continuance in the 2003 biennium of $40 million in one-time revenues and accounting adjustments, and other adjustments that would reduce available revenue growth to $63 million, <u>before</u> taking into account the impact of tax relief legislation. General fund reductions due to tax relief of nearly $30 million in the 2001 biennium would grow to $41 million in the 2003 biennium, reducing available revenues another $11 million. This would leave only $52 million of new revenues to support over $104 million in increased present law expenditure needs, and creating a shortfall of over $52 million, even before considering any new proposals and expansions in government services.

The present law shortfall of $52 million assumes the 2003 legislature would want to retain the $51 million general fund reserve established for the 2001 biennium. If the legislature adopted a lower ending reserve, the shortfall would be reduced accordingly. Without unanticipated increases in general fund revenue growth or reductions in approved state expenditures, there will be a need to reduce services or increase revenues in order to balance the 2003 biennium budget.

In deriving the budget projections in Table 2, the revenue estimates are based on Legislative Fiscal Division (LFD) projections of general fund revenues, and impacts of tax revisions are based on fiscal note estimates and LFD calculations of the impacts of those measures. The anticipated growth in expenditures is based on the assumptions discussed below.

<u>Human Services</u>

Projected Medicaid costs, which comprise the largest share of human services expenditures, reflect an assumed annual compound growth rate of 5 percent per year, which is slightly lower than the fiscal 1998 to 2001 biennium growth rates. The exceptions to this growth rate are in: 1) nursing homes, which are projected to grow by the historical 0.5 percent each year; and 2) Medicaid waiver services for aging, which are projected at the 2001 biennium level plus the $1.5 million expansion authorized by the legislature. The projections also assume that the state Medicaid match rate will remain at the current level. Also contributing to the overall assumed growth in human services costs of $26.7 million are: 1) annualization of all provider rate increases and direct care worker wage increases; and 2) a projected 23 percent biennial increase in foster care general fund costs.

<u>Corrections</u>

The increase in projected corrections costs of $18.3 million reflects the following assumptions: 1) a projected increase of 70 pre-release beds; 2) operation of the prison reception unit authorized by the 1999 legislature; 3) the net increase in costs of an increase in population at the expanded women's prison authorized by the 1999 legislature; 4) an increase of 151 in the adult male population housed in private contract beds; and 5) an increase in medical costs due to the increased population.

<u>Higher Education</u>

The primary impetus behind any anticipated growth in the university system is due to increases in projected enrollments. Enrollments in the 2003 biennium are anticipated to be stable. Therefore, no increases beyond inflation are projected.

K-12 Education

Costs in the 2003 biennium for K-12 aid to schools are projected to decrease by about $10 million from the 2001 appropriated level. This decrease is due to the net impact of: 1) full implementation of the phased-in schedule increase in the 2001 biennium of 3.5 percent per ANB for elementary students and 1.0 percent per year for high school students; 2) full biennium implementation of assumption by the state of 41.8 percent of direct state aid costs, compared to 41.1 percent in fiscal 2000; and 3) a projected reduction in ANB of 1.5 percent each year. The projections also reflect full motor vehicle tax reimbursements of $4.0 million per year compared to $2.2 million in fiscal 2001.

Local Government Reimbursements

Reimbursements by the general fund to local jurisdictions to compensate for lost revenues due to tax relief are expected to increase by $50.1 million in the 2003 biennium from the 2001 appropriated level. The legislature directed that the cost of the reimbursements at the level established by the legislature be included in the present law budget for the 2003 biennium. Reimbursements during the 2001 biennium do not reflect a full two year amount since some of the legislation requires reimbursement only in fiscal 2001. In the 2003 biennium, the present law reimbursements will reflect the full two year amount plus some growth due to reimbursement for the continued elimination of local property tax revenue from livestock.

Pay Plan

Because implementation of the 2001 biennium pay plan is phased-in over the biennium, the costs of implementation for a full biennium will be about $33.7 million general fund, compared to the $21.9 million general fund appropriated for the 2001 biennium.

General Growth

General government operations are estimated to grow an average of only 1.5 percent, or $3.3 million.

Other Authority

The majority of the increase in this category reflects the increase in debt service obligations as the result of the large capital projects bonding authority approved by the 1999 legislature.

Contingencies

No estimate is included in this projection for increased expenditures due to emergencies and/or contingencies. These include supplemental budget requests, which historically exceed $20 million per biennium, with fire suppression costs and other emergencies (such as flooding) being the primary unfunded contingency. Other unfunded risks include significant reductions in federal support for medicaid and other programs, and litigation addressing state tax policy. Please note that the estimate does not take into consideration the additional general fund cost of $5 million if HB 540 is approved by the electorate for reduced vehicle licensing costs, nor the impact if the trigger mechanism in SB 200 reduces business inventory taxes below 3 percent. Further, it does not take into consideration any appropriations that may be approved in the June 1999 special session related to Crow Tribe tax litigation and water rights compacts.

Summary

Table 2 shows a structurally imbalanced general fund in the 2003 biennium, with $52 million of additional revenue growth or expenditure savings needed to achieve a balanced present law budget during the 2003 biennium. As such, it provides a challenging fiscal outlook for the 2001 legislature, leaving a deficit for a present law budget, let alone any funds for contingencies and new initiatives. This provides a preliminary basis for comparing different approaches to the 2001 legislative session budget issues.

HIGHWAYS SPECIAL REVENUE ACCOUNT PROJECTIONS

Table 3 summarizes the projections of the working capital for the highways state special revenue account. This account funds: 1) the Department of Transportation construction, maintenance, planning, and operations functions; 2) highway safety enforcement activities in the Department of Justice; and 3) state park road maintenance functions in the Department of Fish, Wildlife and Parks. These projections indicate that the account is anticipated to be expended at a higher level than expected revenues for both the 2001 and 2003 biennia. Consequently, the balance will continue to decline until it is fully depleted in fiscal 2002. This indicates that the structural imbalance the account has experienced during the last several biennia is projected to continue. A detailed working capital analysis and discussion is available in the Department of Transportation agency discussion in Volume 1 of this report.

Table 3 shows that there is a clear imbalance between revenues and expenditures until fiscal 2003. Expenditures are projected to exceed revenues by $24.2 million in the 2001 biennium. This imbalance is projected to decline to $7.3 million in the 2003 biennium and reverse to a position of excess revenues in the 2005 biennium. During fiscal 2003, the long-term debt the department issued in 1987 for the state match of the federal-aid and the 100 percent state funded highway construction programs will be retired. With this debt retired, the expenditures from the account will be $10 million lower in fiscal 2003 and $14 million lower each year thereafter.

Even though the imbalance is projected to reverse after fiscal 2003, the account will remain susceptible to future instability. The projection for fiscal 2005 shows that the amount of excess revenues will decline relative to the excess in fiscal 2004. This indicates that the account remains vulnerable to the long-term impacts resulting from being funded with a relatively inelastic revenue base – motor vehicle fuel taxes. Construction, maintenance, and operating expenditures increase with general inflation whereas the tax on motor fuels is a fixed percentage per gallon. Tax revenues increase with increases in the number of gallons sold and not the price of gasoline. As such, there is no direct link between expenditure inflation and revenues. Expenditures are estimated to grow at a 3 percent rate while revenues are estimated to grow only at a 1 percent rate. In the long-term, revenues can not sustain the escalating costs of highway construction, related activities, and overhead.

Table 3
Highways Special Revenue Account
Projected Working Capital Analysis
Fiscal 1998 - 2005
In Millions

Component	Actual Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Beginning Working Capital Balance	$39.2	$48.4	$30.0	$17.6	$5.9	($2.0)	($1.4)	$1.4
Revenues	201.4	208.3	210.1	209.2	213.0	215.1	217.2	219.4
Available Working Capital	240.6	256.7	240.1	226.8	218.9	213.1	215.8	220.8
Authorized Expenditures	192.2	226.7	222.5	220.9	220.9	214.5	214.4	218.3
Ending Working Capital Balance	$48.4	$30.0	$17.6	$5.9	($2.0)	($1.4)	$1.4	$2.5
Variance - Revenues less Expenditures	9.2	(18.4)	(12.4)	(11.7)	(7.9)	0.6	2.8	1.1